

FIRST DIVISION

[G.R. No. 153004. November 5, 2004]

SANTOS VENTURA HOCORMA FOUNDATION, INC., *petitioner*, vs. ERNESTO V. SANTOS and RIVERLAND, INC., *respondents***D E C I S I O N****QUISUMBING, J.:**

Subject of the present petition for review on *certiorari* is the **Decision**,^[1] dated January 30, 2002, as well as the April 12, 2002, **Resolution**^[2] of the Court of Appeals in CA-G.R. CV No. 55122. The appellate court reversed the Decision,^[3] dated October 4, 1996, of the Regional Trial Court of Makati City, Branch 148, in Civil Case No. 95-811, and likewise denied petitioners Motion for Reconsideration.

The facts of this case are undisputed.

Ernesto V. Santos and Santos Ventura Hocorma Foundation, Inc. (SVHFI) were the plaintiff and defendant, respectively, in several civil cases filed in different courts in the Philippines. On October 26, 1990, the parties executed a **Compromise Agreement**^[4] which amicably ended all their pending litigations. The pertinent portions of the Agreement read as follows:

1. Defendant Foundation shall pay Plaintiff Santos P14.5 Million in the following manner:
 - a. P1.5 Million immediately upon the execution of this agreement;
 - b. **The balance of P13 Million shall be paid, whether in one lump sum or in installments, at the discretion of the Foundation, within a period of not more than two (2) years from the execution of this agreement;** provided, however, that in the event that the Foundation does not pay the whole or any part of such balance, the same shall be paid with the corresponding portion of the land or real properties subject of the aforesaid cases and previously covered by the notices of *lis pendens*, under such terms and conditions as to area, valuation, and location mutually acceptable to both parties; **but in no case shall the payment of such balance be later than two (2) years from the date of this agreement;** otherwise, payment of any unpaid portion shall only be in the form of land aforesaid;
2. **Immediately upon the execution of this agreement (and [the] receipt of the P1.5 Million), plaintiff Santos shall cause the dismissal with prejudice of Civil Cases Nos. 88-743, 1413OR, TC-1024, 45366 and 18166 and voluntarily withdraw the appeals in Civil Cases Nos. 4968 (C.A.-G.R. No. 26598) and 88-45366 (C.A.-G.R. No. 24304) respectively and for the immediate lifting of the aforesaid various notices of *lis pendens* on the real properties aforementioned (by signing herein attached corresponding documents, for such lifting);** provided, however, that in the event that defendant Foundation shall sell or dispose of any of the lands previously subject of *lis pendens*, the proceeds of any such sale, or any part thereof as may be required, shall be partially devoted to the payment of the Foundations obligations under this agreement as may still be subsisting and payable at the time of any such sale or sales;

...

5. Failure of compliance of any of the foregoing terms and conditions by either or both parties to this agreement shall *ipso facto* and *ipso jure* automatically entitle the aggrieved party to a writ of execution for the enforcement of this agreement. [Emphasis supplied]^[5]

In compliance with the Compromise Agreement, respondent Santos moved for the dismissal of the aforesaid civil cases. He also caused the lifting of the notices of *lis pendens* on the real properties involved. For its part, petitioner SVHFI, paid P1.5 million to respondent Santos, leaving a balance of P13 million.

Subsequently, petitioner SVHFI sold to Development Exchange Livelihood Corporation two real properties, which were previously subjects of *lis pendens*. Discovering the disposition made by the petitioner, respondent Santos sent a letter to the petitioner demanding the payment of the remaining P13 million, which was ignored by the latter. Meanwhile, on September 30, 1991, the Regional Trial Court of Makati City, Branch 62, issued a **Decision**^[6] approving the compromise agreement.

On October 28, 1992, respondent Santos sent another letter to petitioner inquiring when it would pay the balance of P13 million. There was no response from petitioner. Consequently, respondent Santos applied with the Regional Trial Court of Makati City, Branch 62, for the issuance of a writ of execution of its compromise judgment dated September 30, 1991. The RTC granted the writ. Thus, on March 10, 1993, the Sheriff levied on the real properties of petitioner, which were formerly subjects of the *lis pendens*. Petitioner, however, filed numerous motions to block the enforcement of the said writ. The challenge of the execution of the aforesaid compromise judgment even reached the Supreme Court. All these efforts, however, were futile.

On November 22, 1994, petitioners real properties located in Mabalacat, Pampanga were auctioned. In the said auction, Riverland, Inc. was the highest bidder for P12 million and it was issued a Certificate of Sale covering the real properties subject of the auction sale. Subsequently, another auction sale was held on February 8, 1995, for the sale of real properties of petitioner in Bacolod City. Again, Riverland, Inc. was the highest bidder. The Certificates of Sale issued for both properties provided for the right of redemption within one year from the date of registration of the said properties.

On June 2, 1995, Santos and Riverland Inc. filed a **Complaint for Declaratory Relief and Damages**^[7] alleging that there was delay on the part of petitioner in paying the balance of P13 million. They further alleged that under the Compromise Agreement, the obligation became due on October 26, 1992, but payment of the remaining P12 million was effected only on November 22, 1994. Thus, respondents prayed that petitioner be ordered to pay legal interest on the obligation, penalty, attorneys fees and costs of litigation. Furthermore, they prayed that the aforesaid sales be declared final and not subject to legal redemption.

In its **Answer**,^[8] petitioner countered that respondents have no cause of action against it since it had fully paid its obligation to the latter. It further claimed that the alleged delay in the payment of the balance was due to its valid exercise of its rights to protect its interests as provided under the Rules. Petitioner counterclaimed for attorneys fees and exemplary damages.

On October 4, 1996, the trial court rendered a **Decision**^[9] dismissing herein respondents complaint and ordering them to pay attorneys fees and exemplary damages to petitioner. Respondents then appealed to the Court of Appeals. The appellate court reversed the ruling of the trial court:

WHEREFORE, finding merit in the appeal, the appealed Decision is hereby **REVERSED** and judgment is hereby rendered ordering appellee SVHFI to pay appellants Santos and Riverland, Inc.: (1) legal interest on the principal amount of P13 million at the rate of 12% per annum from the date of demand on October 28, 1992 up to the date of actual payment of the whole obligation; and (2) P20,000 as attorneys fees and costs of suit.

SO ORDERED.

Hence this petition for review on certiorari where petitioner assigns the following issues:

I

WHETHER OR NOT THE COURT OF APPEALS COMMITTED REVERSIBLE ERROR WHEN IT AWARDED LEGAL INTEREST IN FAVOR OF THE RESPONDENTS, MR. SANTOS AND RIVERLAND, INC., NOTWITHSTANDING THE FACT THAT NEITHER IN THE COMPROMISE AGREEMENT NOR IN THE COMPROMISE JUDGEMENT OF HON. JUDGE DIOKNO PROVIDES FOR PAYMENT OF INTEREST TO THE RESPONDENT

II

WHETHER OF NOT THE COURT OF APPEALS ERRED IN AWARDING LEGAL IN[T]EREST IN FAVOR OF THE RESPONDENTS, MR. SANTOS AND RIVERLAND, INC., NOTWITHSTANDING THE FACT THAT THE OBLIGATION OF THE PETITIONER TO RESPONDENT SANTOS TO PAY A SUM OF MONEY HAD BEEN CONVERTED TO AN OBLIGATION TO PAY IN KIND DELIVERY OF REAL PROPERTIES OWNED BY THE PETITIONER WHICH HAD BEEN FULLY PERFORMED

III

WHETHER OR NOT RESPONDENTS ARE BARRED FROM DEMANDING PAYMENT OF INTEREST BY REASON OF THE WAIVER PROVISION IN THE COMPROMISE AGREEMENT, WHICH BECAME THE LAW AMONG THE PARTIES^[10]

The only issue to be resolved is whether the respondents are entitled to legal interest.

Petitioner SVHFI alleges that where a compromise agreement or compromise judgment does not provide for the payment of interest, the legal interest by way of penalty on account of fault or delay shall not be due and payable, considering that the obligation or loan, on which the payment of legal interest could be based, has been superseded by the compromise agreement.^[11] Furthermore, the petitioner argues that the respondents are barred by *res judicata* from seeking legal interest on account of the waiver clause in the duly approved compromise agreement.^[12] Article 4 of the compromise agreement provides:

Plaintiff Santos waives and renounces any and all other claims that he and his family may have on the defendant Foundation arising from and in connection with the aforesaid civil cases, and defendant Foundation, on the other hand, also waives and renounces any and all claims that it may have against plaintiff Santos in connection with such cases.^[13] [Emphasis supplied.]

Lastly, petitioner alleges that since the compromise agreement did not provide for a period within which the obligation will become due and demandable, it is incumbent upon respondent Santos to ask for judicial intervention for purposes of fixing the period. It is only when a fixed period exists that the legal interests can be computed.

Respondents proffer that their right to damages is based on delay in the payment of the obligation provided in the Compromise Agreement. The Compromise Agreement provides that payment must be made within the two-year period from its execution. This was approved by the trial court and became the law governing their contract. Respondents posit that petitioners failure to comply entitles them to damages, by way of interest.^[14]

The petition lacks merit.

A compromise is a contract whereby the parties, by making reciprocal concessions, avoid a litigation or put an end to one already commenced.^[15] It is an agreement between two or more

persons, who, for preventing or putting an end to a lawsuit, adjust their difficulties by mutual consent in the manner which they agree on, and which everyone of them prefers in the hope of gaining, balanced by the danger of losing.^[16]

The general rule is that a compromise has upon the parties the effect and authority of *res judicata*, with respect to the matter definitely stated therein, or which by implication from its terms should be deemed to have been included therein.^[17] This holds true even if the agreement has not been judicially approved.^[18]

In the case at bar, the Compromise Agreement was entered into by the parties on October 26, 1990.^[19] It was judicially approved on September 30, 1991.^[20] Applying existing jurisprudence, the compromise agreement as a consensual contract became binding between the parties upon its execution and not upon its court approval. From the time a compromise is validly entered into, it becomes the source of the rights and obligations of the parties thereto. The purpose of the compromise is precisely to replace and terminate controverted claims.^[21]

In accordance with the compromise agreement, the respondents asked for the dismissal of the pending civil cases. The petitioner, on the other hand, paid the initial ₱1.5 million upon the execution of the agreement. This act of the petitioner showed that it acknowledges that the agreement was immediately executory and enforceable upon its execution.

As to the remaining ₱13 million, the terms and conditions of the compromise agreement are clear and unambiguous. It provides:

...

b. The balance of P13 Million shall be paid, whether in one lump sum or in installments, at the discretion of the Foundation, **within a period of not more than two (2) years from the execution of this agreement**^[22] [Emphasis supplied.]

...

The two-year period must be counted from October 26, 1990, the date of execution of the compromise agreement, and not on the judicial approval of the compromise agreement on September 30, 1991. When respondents wrote a demand letter to petitioner on October 28, 1992, the obligation was already due and demandable. When the petitioner failed to pay its due obligation after the demand was made, it incurred delay.

Article 1169 of the New Civil Code provides:

Those obliged to deliver or to do something incur in delay **from the time the obligee judicially or extrajudicially demands from them the fulfillment of their obligation.** [Emphasis supplied]

Delay as used in this article is synonymous to default or *mora* which means delay in the fulfillment of obligations. It is the non-fulfillment of the obligation with respect to time.^[23]

In order for the debtor to be in default, it is necessary that the following requisites be present: (1) that the obligation be demandable and already liquidated; (2) that the debtor delays performance; and (3) that the creditor requires the performance judicially or extrajudicially.^[24]

In the case at bar, the obligation was already due and demandable after the lapse of the two-year period from the execution of the contract. The two-year period ended on October 26, 1992. When the respondents gave a demand letter on October 28, 1992, to the petitioner, the obligation was already due and demandable. Furthermore, the obligation is liquidated because the debtor knows precisely how much he is to pay and when he is to pay it.

The second requisite is also present. Petitioner delayed in the performance. It was able to fully settle its outstanding balance only on February 8, 1995, which is more than two years after the extra-judicial demand. Moreover, it filed several motions and elevated adverse resolutions to the appellate court to hinder the execution of a final and executory judgment, and further delay the fulfillment of its obligation.

Third, the demand letter sent to the petitioner on October 28, 1992, was in accordance with an extra-judicial demand contemplated by law.

Verily, the petitioner is liable for damages for the delay in the performance of its obligation. This is provided for in Article 1170^[25] of the New Civil Code.

When the debtor knows the amount and period when he is to pay, interest as damages is generally allowed as a matter of right.^[26] The complaining party has been deprived of funds to which he is entitled by virtue of their compromise agreement. The goal of compensation requires that the complainant be compensated for the loss of use of those funds. This compensation is in the form of interest.^[27] In the absence of agreement, the legal rate of interest shall prevail.^[28] The legal interest for loan as forbearance of money is 12% per annum^[29] to be computed from default, *i.e.*, from judicial or extrajudicial demand under and subject to the provisions of Article 1169 of the Civil Code.^[30]

WHEREFORE, the petition is DENIED for lack of merit. The Decision dated January 30, 2002 of the Court of Appeals and its April 12, 2002 Resolution in CA-G.R. CV No. 55122 are AFFIRMED. Costs against petitioner.

SO ORDERED.

Davide, Jr. C.J. (Chairman), Ynares-Santiago and Carpio, JJ., concur.
Azcuna, J., on leave.

^[1] Rollo, pp. 39-45. Penned by Associate Justice Hilarion L. Aquino, with Associate Justices Edgardo P. Cruz, and Amelita G. Tolentino concurring.

^[2] *Id.* at 46.

^[3] *Id.* at 77-82.

^[4] Records, pp. 118-123.

^[5] *Id.* at 38-40.

^[6] *Id.* at 36-40.

^[7] *Id.* at 1-11.

^[8] *Id.* at 23-35.

^[9] *Id.* at 151-156.

^[10] Rollo, p. 218.

^[11] *Id.* at 219-220.

^[12] *Id.* at 221.

^[13] Records, pp. 39-40.

^[14] Rollo, p. 149.

- [15] New Civil Code, Art. 2028.
- [16] [Cebu International Finance Corp. v. Court of Appeals, G.R. No. 123031](#), 12 October 1999, 316 SCRA 488, 498-499 citing David v. Court of Appeals, G.R. No. 97240, 16 October 1992, 214 SCRA 644, 650.
- [17] Del Rosario v. Madayag, G.R. No. 118531, 28 August 1995, 247 SCRA 767, 771.
- [18] Mayuga v. Court of Appeals, No. L-46953, 28 September 1987, 154 SCRA 309, 320.
- [19] Records, pp. 118-123.
- [20] *Id.* at 36-40.
- [21] Landoil Resources Corporation v. Tensuan, No. L-77733, 20 December 1988, 168 SCRA 569, 578.
- [22] Records, pp. 38-39.
- [23] IV Arturo M. Tolentino, CIVIL CODE OF THE PHILIPPINES, 101 (1987 ed.).
- [24] *Id.* at 102.
- [25] Art. 1170. Those who in the performance of their obligations are guilty of fraud, negligence, or delay and those who in any manner contravene the tenor thereof, are liable for damages.
- [26] II J. Cesar S. Sangco, PHILIPPINE LAW ON TORTS AND DAMAGES 1085 (1993 ed.).
- [27] *Ibid.*
- [28] Quiros v. Tan-Guinlay, No. 1904, 3 March 1906, 5 Phil 675, 680.
- [29] Central Bank Circular No. 416, July 29, 1974.
- [30] [Eastern Assurance and Surety Corporation v. Court of Appeals, G.R. No. 127135](#), 18 January 2000, 322 SCRA 73, 78.